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The Things That Are Bothering Property Owners These Days

Some pertinent observations on real estate taxes by a man who is doing some intelligent thinking about them

By EDWARD K. HARDY

TO THE owners of real estate and to the financing agencies, the mortgage bankers, the concern of assessors over the problems of their office is a most welcome sign. As an owner interested in real estate taxation, I attended some of the sessions of the assessors' convention held last summer in Chicago. One could not help being impressed by this group's endeavor to find answers to questions which beset the most difficult office in local government.

John A. Zangerle's article in the December issue of *The Mortgage Banker* entitled "The Things That Are Bothering the Assessors These Days" is refreshing for its candor. It reflects clearly why assessors are "bothered" and owners are concerned to the point of abandoning real estate. This article answering Mr. Zangerle attempts to present the owner's point of view as to "why assessors are less able to appraise real estate intelligently."

The assessor is governed by two compelling forces over which he has no control. *First*, he must provide the maximum basis (getting as much assessed value on the rolls) to satisfy the insatiable demands of modern municipal government. *Second*, he is operating

under an archaic tax system (the ad valorem method) which makes it impossible for him, no matter how honest or able he might be, to establish what the law generally calls for "a fair market" or cash valuation of land and improvements.

Mr. Hardy owns a 19-story building in Chicago as well as farms and other real estate in Illinois and other states. He is president of the National Council of Real Estate Taxpayers, with which MBA is affiliated, chairman of the Tax Research Committee of the National Association of Building Owners and Managers, and one of the leaders in the group which is evolving "the Chicago Plan" mentioned here.

The product of both these forces is clearly shown in Mr. Zangerle's article. He is a man outstanding as a public official, able and honest, with a long record as assessor, who has contributed much to the profession. After a brief review of the confused conditions surrounding real estate, he asks, "when as-

sessors are less able to intelligently appraise real estate — *what is proposed?*"

"For one thing," he continues, "large real estate owners are urging an occupier's tax. I fear this will prove a will of the wisp. For if an occupier is burdened with a greater tax for the use of the property, he will demand reduction in his rent."

He dismisses the occupancy or use tax principle as being a "will of the wisp", and infers that over-taxed owners would be no better off with its adoption than under our present tax system. The essential fact is this: over-taxation either under the occupancy tax system or our ad valorem method forces the owner to absorb part or all such over burden. Mr. Zangerle did not say, as he should, that under the occupancy tax system both owner and the municipality are in partnership and consequently such destructive taxation is much more quickly remedied for the good of both. Under this system the owner can take action easily and legally. He can refuse to rent, (thus becoming tax free) with penalty to the municipality (and himself) and forcibly bring up the issue of the fairness of the tax being levied. Under the ad valorem system he must pay or lose his property.

He did not say that under our ad valorem system the assessor has practically autocratic powers of life and death over real estate values. He also fails to mention that over-assessment, resulting from current ways of finding

"fair market value", can only be remedied by costly legal proceedings or by tribute as a quicker and more effective means.

Mr. Zangerle, as a public official, could hardly be expected to go as far as this. However, when he says, "for if an occupier is burdened with a greater tax for the use of the property, he will demand reduction in his rent", and states that this system "will prove a will of the wisp", he opens the door for a factual answer.

Under the occupancy tax system the assessed value of land and improvements is based on the rental they command—the net rental income to the owner. When this income increases or diminishes, the tax load is adjusted automatically and without too great lag. When, therefore, over-taxation forces reduction in rents, the rental base thus established brings the lowered assessment. This self correction includes excessive tax rates; high rates in themselves force lower assessment. With the ad valorem system assessors officially decline any responsibility for the rate end of the equation.

The occupancy tax, by its broad base (everyone pays whether owner or renter) is practical and realistic in preventing over-taxation. The tax may be heavy, and yet it is accepted because of the uniformly equitable distribution of the tax load. Due to this very distribution the corrective force takes place to ease this burden. Remember it is a case of no use, no tax. Owner interest and municipal interest have one common mutual objective—either both prosper or both are hurt. This is achieved through separating the assessment machinery from party politics, the power resting in civil service boards with highly trained personnel dealing with just one relatively simple factor, rental value to determine the tax base.

The feature of this system is maximum protection of the interests of the municipality, the owner, and the individual who cannot own but must rent.

The municipality benefits from the broad, direct, taxpaying base. The actual trends of ability to pay, whether up or down, are so clearly defined and controlled that fiscal policies are held to a pay-as-you-go basis. They cannot mortgage the future to the extent done

under the ad valorem system where every bit of land and improvement is subject to seizure by the state. Our need to have statutory limitations on bonding power proves the inherent confiscatory force vested in our system.

Occupancy Tax as Members See It

We asked MBA members if they would favor an occupancy tax which would supplement or replace the ad valorem tax system. The replies we got were surprising in many respects. Sixty-seven per cent said they would favor it while the remaining 33 per cent don't like the idea. "Impractical," some said; "too visionary," said others. "Would certainly be fairer than the present system—but how is anything like this ever going to be accomplished?" was another comment.

Under the occupancy tax the owner is free to develop his land in accordance with economic needs and is not forced into uneconomic use as is the case under the ad valorem system. He is more confident in using his capital for he is free of this tax pressure. But, of even more importance, he knows that his neighbors, being also free, will not produce surplus space to an unreasonable degree. The result is that supply and demand are more nearly in balance. Supply of space is generally and moderately in excess of demand for two reasons: *first*, that vacancy does not carry the additional penalty of the tax load; and *second*, because of better control of rental rates, capital seeks employment in this field.

Under the occupancy tax system the tenant is better off in the long run. The shift of the tax burden from owner to occupant has been attacked as inequitable and as giving real estate a tax free status. The objection can be quickly disproved by actual conditions in countries where this system is in force.

Under this system the tenant pays directly to the municipality his share of the costs of services rendered him.

To the owner he pays the amount necessary to cover operating costs and the necessary return on principle invested. His tax bill is less because when he pays it direct he has a real reason to see that the tax money is economically used (not merely an academic reason as with the ad valorem method).

His rent bill is less, because the real estate owner, being relieved of the tax uncertainties, is concerned merely with the economic return on his investment. Capital responds quickly to the removal of tax risks, keeps an adequate supply of space available, and with lowered rental terms in consequence. Since land and improvements are free of confiscation by taxation, capital is satisfied with lower but surer returns.

I can assure Mr. Zangerle there is nothing "will of the wisp" about the advantage to all concerned in the occupancy tax system.

Having disposed of the occupancy tax Mr. Zangerle next attacks the Chicago plan of "assessment of a capital value based on the net rents". This plan has been under development for two years to operate under our ad valorem system—it has nothing to do with the occupancy tax method. In view of my recent visit with him at Cleveland I am sure that Mr. Zangerle was not familiar with the details of this plan at the time his article was written.

The Chicago plan is based on a sound economic approach to the problem in order to produce the maximum of uniformity and a minimum of confiscation under our ad valorem system. It is based on finding capital value for tax purposes by the use of the *known rental factor* for the measurement of worth. It eliminates the crystal gazing in which assessors now engage to force theoretical future "greater and better use" of land and thus bigger and better assessment rolls. The Chicago plan is finding acceptance and support in principle by Cook County's Assessor, John S. Clark, who has been consulted in each step taken since its inception.

This article is not written solely in the spirit of criticism of Mr. Zangerle or the assessing profession. It is written to stimulate thinking and action on the part of owners, agents and mortgage bankers who have a vital stake in one of the great industries of the country.

What MBA Thinks of OPA

Our members' opinion survey says rents were frozen about 14% too low but that actual administration has not been bad

WHAT do MBA members think about rent control? They think plenty—and most of it isn't so good. Not with the principle, of course, or the need for it during the war period because MBA members agree that control of prices had to be instituted. What members mostly complain about are the rules and regulations and certain parts of its administration.

Let's have a look at the results of our recent survey of this and other subjects. Experience so far indicates that rents generally were frozen too low.

MBA members in 100 cities in 40 states say that their experience has shown that rents were frozen an average of 13.8 per cent too low.

They insisted that operating costs for rental property have risen sharply and that, in the final analysis, property owners have been increasingly penalized under the ceilings established by OPA.

Estimates of how much too low rents were frozen ranged all the way from 35 and 40 per cent in certain areas to less than 5 per cent. Many members expressed the view that, based on the experience in their communities, no other group of citizens has made a greater contribution to stabilization of living costs than owners of rental property. Many supplemented this opinion by saying that rent is about the only item in the cost of living that has held absolutely firm in the anti-inflation effort. No one will argue that point!

The opinions collected in the study have a special significance because our members include many of the largest property managers in the country, some of whom supervise thousands of residential units. Our study is thought to be the most recent made on a nationwide basis on this subject.

As to when rent control will end, more than 91 per cent of our members now believe that it can be successfully accomplished in six months to a year after the close of the war. Of this 91 per cent, the majority expressed the opinion that considerable liberalization of restrictions can at least be put into effect before that time. Eight and a half per cent of the members do not anticipate an end of price control restrictions until several years after the war and believe that rent control will have to be maintained along with other price stabilization.

This minority group's opinion was echoed the other day by an authority who paints a pretty black picture.

"Rent control will be with us for a long time if not forever," declared Kendall Cady, president, Apartment Building Owners and Managers Association.

"Governmental rent control is here to stay. We will have to learn to live with it. Maybe it won't be any worse than other laws which people declared they couldn't live under, such as com-

pulsory workmen's compensation and the Child Labor Act.

"I doubt that the law will be found unconstitutional because: (1) Its individual sections are lifted largely from other constitutional laws; (2) all five rent control suits now before the Supreme Court were brought by the government, which feels certain of victory; (3) no court will kill the law as long as a state of emergency exists.

"I believe Congress will again renew the rent control law when it expires June 30, 1944. The administration is not likely to seek the lifting of rent control after the war because World War I experience shows that the housing situation was worse after that conflict than during it.

"Will the public rise up in its wrath and demand abolishment of the law? No, because more than half of the nation's citizens are tenants."

Although our members expressed the opinion that rents generally were frozen an average of nearly 14 per cent too low and that many OPA regulations

Went Up Fast

There was a price rise of more than 17 per cent for residential real estate over the country during the past year and higher prices are likely to prevail in 1944, according to the MBA survey. The estimated average rise of 17.2 per cent reflects the opinions of our members in 100 cities in 40 states. Estimated price increases for residential property varied widely, ranging from purely nominal gains of from 3 to 5 per cent in many cities to as high as 35 and 40 per cent in a number of crowded war centers.

Sixty-seven per cent of MBA members participating in the poll believe that still higher prices are in prospect for 1944 but only a few believe that the country faces anything like a run-away market.

Independent FHA

More than three-fourths of MBA members participating in our recent fact-finding poll believe that both FHA and the Federal Home Loan Bank System would better serve the purposes which Congress intended they should if they were separate agencies and not a part of NHA.

Our study showed that 80 per cent of MBA members in 100 cities in 40 states whose opinions are represented in the findings believe that FHA should be a separate agency as it was when organized. Seventy-eight per cent think the same way about the Federal Home Loan Bank System.

Members favoring separation say that both agencies have specific functions to perform and can best do so as independent units.

have worked an unjust hardship on property owners, a majority of those who participated in the study believe that actual administration of rent control has been efficiently and capably handled.

Of those participating in the poll, 57.3 per cent say rent control has been efficiently and capably administered in their communities. The remainder expressed opposite views, running all the way from "too much politics" and "incompetents in charge" to "just what you might expect from bureaucracy" and "rigid centralization in Washington prevented a good job being done."

According to L. E. Mahan, St. Louis, MBA vice president, the fact that more than 57 per cent of those whose opinions and experience are represented in the study, believe that actual administration of rent control from the regulations set up in Washington, has been capable and fair "is a tribute to OPA in inducing many capable men to handle the work."

"Every postwar planning program assumes that new building will be resumed as soon as the war is over and that construction will be one of the big fields in which wartime labor will be absorbed. If such is to be the case, rent control must be adjusted to a basis that such new construction will show a fair return. The price at which rents are fixed must be correlated with wages, the cost of living and all other factors; one cannot be penalized without making the other ineffective," Mahan said.

"It now seems conclusive, however, that OPA erred in freezing the rent level too low and it has certainly been unwise in some of its rulings."

OPA has vigorously defended its administration of rent control as well as its regulations. Its survey of 39 war production centers showed that owners of rental housing are receiving larger operating margins under rent control than in 1939 and 1940, and that the restrictions saved home renters \$1,000,000,000 in 1943.

Data taken from landlords' books showed a 34 per cent increase in net operating income for apartment house owners in 1943 as compared with 1939, while the increase for landlords of small structures was 36 per cent, according to OPA.

Three factors were said to have contributed to the favorable picture: a rent increase of from 3 to 4 per cent before rents were frozen in 1941 and 1942; near capacity occupancy of rental housing under war conditions as compared with normal occupancy of 90 to 95 per cent, and declining expenses stemming from decreases in competitive decoration and unnecessary services.

OPA claims that the population of communities surveyed exceeds 17,000,-

Suggests a Plan Whereby Borrowers Make Regular Payments for Improvements Later

Why not some plan whereby mortgagors pay a fixed sum each month for future improvements to their property just as they do now in an FHA loan for taxes and insurance? The idea has been suggested by Mark Miltenberger, J. D. Miltenberger & Son, Muncie, Ind., who is a member of the Committee on Post-war Planning in his home city.

Mr. Miltenberger outlines his plan like this:

"Most of us haven't forgotten the depression and the physical condition of practically each foreclosed property. Most properties had to be reconditioned before they were salable in the competitive market. Often a substantial loss was suffered by the lending institution, not only because of their failure to enforce amortization but because of the expenditure to make the home ready for the market.

"An *Optional Improvement Escrow Account* might stave off such a condition in the future. Wage earners with fluctuating incomes aren't often able to accumulate sufficient funds to redecorate, repaint and re-roof their properties. Emergency repairs often become necessary, such as termite damage, plumbing, heating, electrical and other mechanical installations. A majority of the average wage earners in ordinary times will not always have sufficient cash on hand to cover even the 'down payment' under Title I. Therefore, this method of financing repairs is not the solution to a mortgagee's problem of the future.

"The *Optional Improvement Escrow Account* idea, I believe, applies mostly

000. The survey embraced more than 75,000 rental dwelling units.

These figures and conclusions have been hotly disputed by property owners. OPA overlooks depreciation and deferred maintenance—the setting up of reserves for future replacement of equipment which is being worn out and which owners are unable to properly repair or replace today, is a common answer. OPA also fails to realize that owners will not always have, nor desire, 100 per cent occupancy.

to the average 80 per cent and 90 per cent FHA's. It perhaps could include heavily-financed leased properties. It most assuredly is an accommodation to property owners with substantial equities. It is a service most people would appreciate. It is a systematic savings plan most of us, as ordinary citizens, should follow for our own protection.

"It might allow one per cent of the original mortgage to be placed in an escrow account each year and payable monthly. It shouldn't be too much of a burden. In most cases the borrower would not be paying in total costs as much under today's low interest rates as he was fifteen years ago for interest. Ninety-nine of a hundred borrowers on the FHA plan like the escrow method of paying taxes and insurance. Many who borrow on the conventional plan are adopting this system for the payment of taxes and insurance. Why not this plan for improvements?

"The plan should tend to stabilize employment of the various building trades craftsmen. MBA members realize that steady employment of labor is a major problem affecting the building trades. This, in turn, should aid in standardizing building costs. Therefore, the *Optional Improvement Escrow Account* will help our members give a higher rating and a better long-time value to their mortgage risks. The depreciation and obsolescence account will be materially affected by this plan."

Mr. Miltenberger has just inaugurated his plan with one mortgagor and is circularizing other mortgagors. A. A.

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Those High Loans Again

**Being comments from here and there
by various members on the question
of excessive appraisals and loans**

ON THE editor's desk is a yellow file folder containing some of the most interesting—and possibly the most significant—letters being written today about mortgages. We say *possibly* because in future years some other editor might turn to them and say “These were warning signals. They clearly showed that inflation in real estate lending was here and that some farsighted action was needed.” On the other hand, these letters may mean nothing because the future may show them to be nothing more than evidences of healthy competition which at times became pretty keen.

The letters we have in mind are letters of complaint, loud and angry complaint, about what some of our members contend are inflationary appraisals being made by some savings and loans “to get the business.”

Let's read several. Here's one from a Kansas lender addressed to his state FHA director. He tells of a Title II loan made in December, 1942, for \$2,700. In December, 1943, the A savings and loan paid off the mortgage and lent \$3,200 on the property. “This is competition we cannot meet,” he writes. “Either FHA should recognize these inflated values in their appraisals or some control should be placed on the Federals whose deposits are guaranteed by the government. These loans simply add fuel to the inflation fires . . . At your last conference here with Mr. Draper . . . he suggested that we get specific cases where Federals were taking up FHA loans. . .”

And here is one from Chicago: “We submitted an FHA loan on this property (he describes it) and were informed that the maximum loan that could be insured was \$8,800. The B savings and loan made a loan of \$9,900 on the property.”

A Florida member contributes one, the details of which are much too in-

volved for our limited space. We present only his conclusion. He says:

“This Federal mortgage represents 94 per cent of sales price in 1943 (as indicated by the documentary stamps) and 188 per cent of FHA valuation in 1940. An inspection of the property and a search of the building inspector's office records reveals that there has been no subsequent improvements to the original building.”

And another from the Middle West: “FHA approved a loan of \$4,600 but the C savings and loan made a loan of \$6,300.”

Our Survey Says the Trend Has Now Become Nation-Wide

And so it goes. We don't for a minute believe that some savings and loans (and we continue to emphasize *some* because, in numbers, it is undoubtedly only a few) are the only lenders guilty of boosting appraisals these days.

Our comments along this line have, it is true, been most concerned with the savings and loans for the simple reason that our members have mentioned them more than any other type of lender. But now we are beginning to hear the other side of the story. Many banks seem to be doing the same thing and some life companies as well.

The most significant development, as far as we are concerned, in the past month has been the fact that this inflationary tendency in appraising and lending is not—as some had supposed—centered in scattered areas of the country. *It is nation-wide.* The results of our recent study of the subject plainly show this to be true.

Nearly 90 per cent of our members in 100 cities in 40 states, who submitted their views on the matter when we asked them late last year, declared that in their communities some lenders are appraising real estate too high, are follow-

ing the rising market up to higher and higher ground and are making excessive loans which, as one member put it, “an awful lot of people aren't going to be able to pay off later.”

Actual results of the survey showed that 88.8 per cent of our members participating in the study declared that excessive appraisals and resulting excessive loans are being made in their communities by some and that they think the trend may mean trouble in the future. The remaining 11.2 per cent expressed varying opinions too diversified to classify here.

Most of those, it is true, mentioned principally the savings and loans as the lenders who were boosting their appraisals and making the high loans.

In the meantime, the discussion among members has become intensified and we are hearing comments on many angles of the matter. Frank Wolff, W. K. Ewing Co., Inc., San Antonio, after reading the article of Morton Bodfish in the December 15th *Local Chapter News* (reprinted from the U. S. League's *Confidential Bulletin*), wants to know if we “may not ask him to explain why, if the building and loans are not making excessive appraisals, they should currently be doing the disproportionately large share of the total mortgage business that they are now doing at, on the whole, higher interest rates than their competitors are asking. Compare the building and loans' volume to total mortgage volume for 1943 with the similar proportions for *any* of the prior years of the past decade. It is extremely doubtful that he could attribute such increased activity solely to a betterment in public esteem for the building and loans.”

Mr. Wolff has in mind the statistics from the FHLBB monthly compilation which show that the savings and loans are making about a third of the loans of \$20,000 and less, banks and trust companies about 20 per cent, individuals about 22 per cent and insurance companies about 7 per cent, with the rest divided among other lenders. In a New Year's statement, John F. Scott, new

president of the United States Savings and Loan League, said that the associations made about three quarters of a billion dollars in loans last year and "that, by the end of the summer, volume was 50 per cent more than in the same month the previous year."

While They Get More Loans We Get Less, Lender Says

E. R. Haley, Central Mortgage Corporation, Des Moines, had the same reaction as Mr. Wolff. He sends a newspaper clipping quoting the president of the Des Moines Federal Home Loan Bank to the effect that "home mortgage loans made by the 240 member building and savings and loan associations during the last three months showed an 80 per cent increase over those of the corresponding period of 1942."

"It is certainly revealing," said Haley, "and I would venture the statement that local representatives of MBA had a like percentage of *less* business during 1943. The answer is obvious: namely, high appraisals to make the loans."

Another MBA member who has been very active in studying this matter in recent months under the sponsorship of his MBA chapter, declared the other day that the situation has become extremely serious in his community and that he doubts very much "if we can ever get the savings and loans to agree to any voluntary control system but our group has made a start in this direction."

This member has discussed the matter with a high official of a Federal Home Loan Bank and inquired what this official thought of the idea of requiring members of that Bank to submit their cases to FHA for appraisal without risk rating and without processing. The latter said he would have no objection provided FHA could speed up its processing so that the appraisal results would be in the hands of the savings and loan within four or five days. Our member is doubtful whether the suggestion would meet with any favorable response from the savings and loan people but thinks it's worthwhile working on. A member of our Washington Contact Committee agrees with him and thinks we might investigate the possibilities

further. Of course the question immediately arises as to reimbursing FHA for its services.

Charles A. Mullenix, Cleveland, former MBA president and chairman of our Washington Contact Committee, thought Mr. Bodfish's review "a very able discussion of the matter from his point of view" but thinks it is not fair to say that the MBA members who are contacting Washington officials have urged federal action.

"We have been critical of all lenders making inflationary loans and have made this position clear to all MBA members. The savings and loans occupy the peculiar position, however, of claiming to be strictly private business and yet, in order to secure funds for loaning, are leaning heavily on the security of its funds furnished by the Federal Savings and Loan Insurance Corporation.

By No Means All of Them Are Making Large Loans

"Those of us who recall the experience of the twenties and thirties and who took part in liquidation activities, can readily see the danger signs resulting from inflationary loans which have been reported in detail from many parts of the country.

"We have been reminded that there is a certain responsibility of mutuality in connection with the Savings and Loan Insurance Corporation, but again, recalling the thirties, I wonder how much force that would have in a depressed period—and how much the taxpayers might be called upon to spend in addition to the \$125,000,000 already provided by the Treasury. As American citizens, we must always reserve the right to complain to the government about excess and unnecessary tax costs.

"May I repeat what we have said many times before: our criticism of certain savings and loans *does not apply to all of them*; but, on the other hand, does apply to any other type of lender who follows an inflationary market in making appraisals."

FHA has clarified its position on the subject. In the last issue of *Local Chapter News*, Earle S. Draper, deputy FHA commissioner, submitted his views

to MBA members and Mr. Ferguson has amplified the agency's stand.

"FHA field offices are not accepting current price increases in their valuations of existing home properties in localities where real estate prices are now rising rapidly and their valuations are not exceeding estimated market prices during the last period of stabilized price levels," Ferguson said.

He pointed out that despite FHA's refusal to recognize current price increases in its valuations, volume of insurance on existing homes during 1943 showed little or no change from 1942 levels.

Mr. Ferguson Makes FHA's Position Entirely Clear

He emphasized that FHA's valuation policy is not frozen to any fixed level of prices and recognizes long-term adjustments in the general price level. This clears up that point. Once before we reported that many had said that a freeze date was being used—July, 1941 was mentioned.

"Our position is that sound mortgage practice by lending institutions and sound mortgage insurance practice by the FHA must be geared to the long-term nature of the commitments made," he said. "If mortgage financing is made available on the basis of valuations keyed to short-term price increases, the result will not only countenance but also encourage unduly high prices and the development of a runaway market."

Another anti-inflationary safeguard in the FHA's insurance procedures, he said, is the rule that where no change in ownership of an existing property is involved, an insured mortgage to refinance the owner's existing debts shall be limited approximately to the amount necessary for the refinancing of existing liens, other obligations contracted in connection with the property, repairs, alterations, and additions to the real estate, and costs incident to the refunding operation such as title search, recording fees, and similar items.

John H. Fahey, commissioner, Federal Home Loan Bank Administration, and James Twohy, governor, Federal Home Loan Bank System, are working hard on the matter. A few days ago

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Heard and Seen

ABA has adopted a resolution to the effect that "government loans or the guarantee of loans are not only unnecessary for the financing of post-war commercial enterprise, but are actually contrary to sound financial policy and the best interests of the American economy."

Carl F. Distelhorst, president, Council of Insured Savings Associations of New York State, thinks it is sound and courageous. He says

"While the resolution does not list specifically the 'unnecessary' federal agencies guaranteeing loans, presumably FHA is one of them. The commercial banks were largely responsible for nurturing FHA along and raising it to be one of the strongest arms in the move toward state capitalism. The bankers apparently have at last learned that they cannot skim the cream off of our economy by dumping the risk into the laps of the federal government without ultimately socializing their own banking system.

"It is most heartening to see that the bankers of the nation have agreed that risk-taking is the business of private credit institutions and not the government's, and to see them willingly ask for the liquidation of one of the government's guarantee systems which they originally fostered."

We wonder how many MBA members have a similar view of the matter.

THOSE HIGH LOANS AGAIN

(Continued from page 6)

the latter reiterated his previously expressed opinion on the potential danger in the present situation in a letter to Mr. Mullenix, chairman of the MBA Washington Contact Committee. He said in part:

"Your members and ours operate under sharply different methods which serves to add some confusion to healthy competitive mistrusts. The operations of our institutions are regularly examined and supervised by this government agency; but even within the framework of such regulation (which your members do not have) ours are empowered by law to make uninsured loans at a higher percentage than most of yours.

"Differences of this kind (and there are others) do not make your task or ours any easier in our common effort to keep lending practices on a sound basis, not only to safeguard wholesome and fair competition, but even more so to prevent abuses which can only damage the mortgage business and create serious problems for the country.

"You cannot be more hot than we are here to identify these dangerous practices wherever they may appear among our institutions and to rout them out. It is a primary duty in our supervisory capacity to do so.

"To that end we are actively pursuing every individual case you send us and we shall continue to do so. We recognize that your help in this matter can only be supplementary at best to our own duties, because your members cannot be expected to ascertain and furnish us all the specific data we need in every case before we can properly act upon it.

"We are proceeding on our own initiative, and by every means within our power, to curtail the tendency to follow the market up to dangerous levels, which is developing in certain communities. Through the medium of our decentralized supervisory authority, we are not only tracing individual cases, but are making over-all studies of particular communities and areas, and this we propose to continue and to step up during the critical year ahead of us. Even so far as we have gone, we have identified alarming trends in certain

parts of the country which we are already struggling to arrest.

"In these areas, I may say, without wishing to protect our institutions to their own ultimate detriment and ours, that the practice of predicated loans on current rising sales prices is by no means confined to our institutions. Indeed, our comparative studies of the mortgages made by various lenders, institutional and personal, indicate in some communities that ours are considerably the lesser offenders.

"However this may be, the evil is certainly a common enemy. We are fighting it energetically. We welcome and invite your collaboration, too, and we will work with your committee in the same spirit of mutual respect and open-dealing which you are so valiantly trying to maintain. It is so vital a threat to the whole mortgage business, however, and so surely a common danger, that I am wondering if we may not need to go much farther, and soon, in working out a joint defense. So far, we have been collaborating in good faith as mutual clearing houses for competitive complaints. This is all to the good so far as it goes; but with the terrific economic forces which are swiftly driving the competitors of all kinds into reluctant and almost involuntary abuses, is there not an urgent need developing for some organized prevention which will really hold the line?"

Mr. Twohy's common-sense attitude is typical of the excellent cooperation which both he and Mr. Fahey have shown in this matter. Mr. Twohy is certainly right when he says the trend toward following the rising market is by no means confined to members of the FHLB System; and we think he has exactly the right idea when he inquires if there is "not an urgent need developing for some organized prevention which will really hold the line."

What suggestions have members along that line?

NEW PLAN SUGGESTED

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Zinn, Indianapolis, a former MBA president, points out that the idea in somewhat different form had been discussed at the inception of FHA. Results of Mr. Miltenberger's experiment will be worth watching.

President's Report to the Members

ONE of the most important developments in the mortgage field has begun to center around HOLC. As members know, Mr. Fahey has a date with congress February 1st when he is expected to be ready with some suggestions as to its ultimate liquidation. MBA is taking a leading role in the discussions now going on looking toward an orderly liquidation. We contend HOLC has done a good job, that the emergency has passed and that when a total liquidation begins, no private interests should profit except to the extent of the interest they may earn on funds invested.

At the December and January discussions in the East, at which practically all classes of lenders were represented, many divergent views were expressed. One opinion was that there should be no selectivity in offering the HOLC portfolio and that good loans should not be sold leaving the agency with the less attractive. They might be offered in "packages" was one thought. Another mentioned a federal guarantee which would permit the disposal of the entire portfolio. This reflects some of the current thinking on the matter over the country.

Congressman Dirksen, who members will recall, has been a leading advocate of prompt liquidation, recently inquired from lenders how they feel about buying these loans. Mr. Mullenix, chairman of our MBA Washington Contact Committee, has emphasized our position to Mr. Dirksen and said he believes there is sufficient private capital available to purchase the HOLC portfolio and that liquidation should be on the basis of the least possible loss to the government.

Recent studies appear to indicate that in some states and areas the loans can be sold at par; in others, it seems they would have to be disposed of at a discount if sold now.

In all of these discussions we are working in closest harmony with our contemporary associations and with the individual groups of lenders within MBA. Before this issue of *The Mortgage Banker* reaches you, there possibly may be an announcement on the matter; and if not, we will keep members fully informed of developments when they more properly reach the development stage.

This month I am happy to announce three new committee appointments. These are Thomas B. O'Toole, president, T. B. O'Toole, Inc., Wilmington, Del., as an advisory member of our Washington Contact Committee; and Fred C. Smith, vice-president and mortgage officer, Bowery Saving Bank, New York, and Milton T. MacDonald, vice-president, The Trust Company of New Jersey, Jersey City, as members of our FHA committee. These men have been rendering valuable service and we are fortunate in securing them for these committee assignments.

Your officers have been disappointed, as I know you have been, in WPB's announcement that there will be no relaxation in building materials restrictions at this time. Scarcity of lumber is a principal reason, according to Donald Nelson. We had hoped for some relaxation, but WPB seems convinced that it must wait for a more definite turning in the war and developments at home.

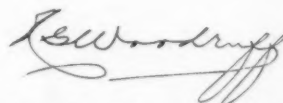
The bill (S. 1584) introduced by Senator Gillette of Iowa is receiving our careful study. This supersedes his previous bill S. 1532 (*discussed in the first article in The Mortgage Banker for January*). The bill provides for stiff taxes on the net gain from any resale of agricultural real property.

Gillette said Judge Vinson and the treasury and agriculture departments have approved it. It represents the most serious effort yet made to tax sales on real estate on the contention that inflation in real property is here and must be curbed. Interested members should write the national office for a copy.

The bill of Senator Francis Maloney (S. 1607) is also receiving our attention. When he introduced it, Senator Maloney said he did so at the request of Mrs. Samuel I. Rosenman's National Committee on Housing, Inc., and fully described this organization, named its officers and a pamphlet it published on the question of how federal holdings of real estate should be liquidated. Mrs. Rosenman promptly denied that her group had anything to do with it. The bill purports to be a plan for the liquidation of war housing. Many observers have concluded that it may likely be the first move on the part of the "public housers" in a postwar campaign for a great volume of public housing. The last section of the bill would make NHA permanent. This has aroused suspicion in many quarters including the councils of MBA. We will have more to say about it later — if there seems to be any reason to do so. Senator Maloney has advised us that *if* hearings are held, he will give us a chance to be heard.

Detroit

January 24, 1944



President, Mortgage Bankers Association of America

